
Board Action Bulletin



Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETS JULY 20, 2004

NCUA 2004 budget declines 3.1 percent

Operating costs in 2004 are projected to decrease 3.09 percent or \$4.6 million and the NCUA Board approved a revised 2004 operating budget of **\$145.3** million based on costs incurred in the first six months of the year and projected spending for the remainder of the year during the mid-session budget review.

No changes in staffing levels are expected during the year. Actual spending for the first six months of 2004 was \$64.8 million, which is \$9.7 million or 13.1 percent below the projected year-to-date budget of \$74.6. Typically, spending is higher during the last half of the year due to travel, training and conferences, consulting and year-end pay adjustments. The majority of the variance is due to existing vacant positions. At June 26, 2004, NCUA had 59 vacancies, or 6.1 percent of staff, which is projected to result in an approximate \$3.2 million decrease in spending for pay and benefits over the year.

2004 mid-session budget adjustments

	Board Approved Budget	Revised Budget Needs	Change	%Change
Employee Pay	\$ 88,519,420	\$ 86,270,924	\$ (2,248,496)	-2.54%
Employee Benefits	22,631,933	22,186,296	(445,637)	-1.97%
Travel	13,492,175	13,150,528	(341,647)	-2.53%
Rent/Communications/Utilities	4,445,363	4,086,649	(358,714)	-8.07%
Administrative	12,655,451	11,312,751	(1,342,700)	-10.61%
Contracted Services	8,183,250	8,292,250	109,000	1.33%
Total	<u>\$ 149,927,592</u>	<u>\$ 145,299,398</u>	<u>\$ (4,628,194)</u>	<u>-3.09%</u>

New mid-year funding requests of \$303,000 will be offset by total decreased spending. The original 2004 budget was \$149,927,592.

FCUs may serve as trustees for Health Savings Accounts

The NCUA Board approved final changes to Parts 721 and 724 of the R&Rs enabling federal credit unions to serve as trustees or custodians for member's Health Savings Accounts (HSA). The rule implements authority contained in the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*, signed into law last December by President Bush.

Federal credit unions may, after the rule is published in the *Federal Register*, offer qualified members the opportunity to establish an HSA. To qualify, a member must have a high deductible health plan, at least \$1,000 deductible for individual and \$2,000 deductible for family coverage.

Contributions to an HSA are tax deductible, whether or not the taxpayer itemizes other deductions. Income earned on funds in an HSA accrues tax-free, and withdrawals for qualified medical expenses are not taxable. Unused HSA funds may be rolled over and accumulated from year to year, and the account is portable. After retirement, but before eligibility for Medicare, an account owner may use funds in this account to purchase health insurance, including long-term care insurance. Any balance remaining in an HSA when the owner reaches age 65 may be used for any purpose. Upon the death of the account owner, account funds may transfer tax-free to a spouse.

Annual contributions to an HSA in tax year 2004 may be up to the lesser of the deductible amount or \$2,600, for individual coverage, or \$5,150, for family coverage. Additional information on HSAs is available on the U.S. Treasury website www.ustreas.gov.

Revised communication and disclosure requirements proposed for mergers and private insurance conversions

The NCUA Board issued a proposal to update and amend Part 708b to establish communication and disclosure requirements to ensure members are fully and properly informed before voting to convert from federal to nonfederal insurance or to terminate federal insurance.

The proposed amendment would also require notice to members whose insurance coverage may be reduced as a result of a merger. It would also permit members to withdraw term accounts without penalty at a credit union that converts from federal to nonfederal insurance. Additionally, the proposal requires certain merging credit unions to analyze the filing requirements of the *Hart-Scott-Rodino Act*.

The proposal was issued with a 60-day comment period.

Proposal issued for mutual savings bank conversions

The NCUA Board issued, with a 60-day comment period, a proposed change to update Part 708a of NCUA's rules regarding conversion of insured credit unions to mutual savings banks. The amendments include additional disclosure requirements, provide guidelines regarding the member vote on conversion, and require the vote be conducted by an independent teller and by secret ballot.

The amendments would require a credit union converting to a mutual savings bank to include in any written communication with members a simple disclosure prepared by NCUA that discusses important aspects of the conversion. The disclosure would address:

- 1) Ownership and control of the institution;

- 2) Operating expenses and their effect on rates and services;
- 3) Effects of a subsequent conversion to a stock institution; and
- 4) Costs associated with conversion.

The guidelines for conducting a member vote on conversion in a fair and legal manner would include:

- 1) Understanding the relationship between federal and state law;
- 2) Determining voter eligibility; and
- 3) Holding a special vote.

Student credit unions can participate in CDRLP

The NCUA Board adopted a final rule change to Part 705 permitting student credit unions to participate in the Community Development Revolving Loan Program (CDRLP) because these low-income institutions provide students with valuable, often unavailable financial services as well as offering students a unique opportunity for a financial education.

The ability to participate in the CDRLP affords student credit unions the opportunity to apply for a CDRLP loan or technical assistance grant which may help the credit union prosper and grow.

Share insurance rule amended to cover living trust accounts

The NCUA Board issued a final rule, Part 745, revising share insurance coverage to provide insurance coverage of up to \$100,000 for interests of qualifying beneficiaries in accounts established as living trusts, whether or not the interest is subject to a contingency. Before this amendment, beneficial interests subject to a defeating contingency were not entitled to separate insurance coverage.

Originally issued as an interim final rule effective April 1, 2004, the final rule aligns National Credit Union Share Insurance Fund (NCUSIF) protection with Federal Deposit Insurance Corporation (FDIC) coverage and simplifies the rules for living trusts, a type of revocable trust.

2nd quarter Share Insurance report

The National Credit Union Share Insurance Fund ended the second quarter of 2004 at a 1.24 percent equity ratio based on projected insured shares of \$498 million at June 30, 2004. The NCUSIF equity ratio is expected to be 1.25 percent at yearend based on projected 6 percent share growth during the year. \$1.7 million was added to the provision for loan loss reserve account during June and reserves now total \$87 million. During 2004, net income is projected to be \$27 million and insurance losses are projected to be \$15 million.

Board votes are unanimous unless indicated.

